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ABSTRACT

Findings of a two-year study of higher education in Maryland in the 1970s are summarized, and a higher education investment plan is proposed. Study findings, which are based on the opinions of persons appearing before the Citizens League Higher Education Research Committee, pertain to planning and management, governance, and access to higher education. Areas of concern are: competition among institutions; overlapping course and program offerings among neighboring schools; gaps in offerings among schools in the state in such important areas as agriculture, business management, and computer science; inflation; the high cost of dropouts; powers of the State Board of Higher Education; accreditation; state aid in Maryland; private gifts and endowments; and cuts in federal aid. It is recommended that a plan be established whereby individuals can set aside funds for educational purposes that will qualify for the same kind of tax relief now accorded individual retirement accounts. Five percent of the total investment will be placed in a scholarship pool of the saver's state of residence for distribution to prospective students in the state according to financial need. A hypothetical case of how the plan works is presented, along with a comparison of beneficiary payback for the investment plan versus student loan. Benefits of the plan and effective yield of the plan to the investor are examined. This plan would require federal legislation. Questions and answers about the Higher Education Investment Plan Proposal are included. (SW)

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CITIZENS LEAGUE REPORT

NUMBER 5 - NOVEMBER 1981

BALTIMORE, MARYLAND 21204 301-828-1353

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Crisis and Opportunity:

PAYING FOR HIGHER EDUCATION IN THE 1980s

A new investment idea offering —

- ☐ savings for higher education;
- ☐ tax breaks to investors;
- ☐ additional scholarship funds for students in need.

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HE 014 796

Approved by the Citizens League Board of Directors, October 6, 1981

About the Citizens League

The Citizens League of Baltimore is a non partisan, educational organization composed of citizens of the Baltimore metropolitan region. The League is committed to a broad, thorough and open discussion of public issues and problems. The League is basically supportive of government.

The Mission of the Citizens League is:

To enable citizens of diverse backgrounds to identify and study problems of public policy;

to reach consensus on solutions for the long term benefit of the Baltimore metropolitan region;

and to influence public policy by bringing these solutions to the attention of community decision makers to assure implementation.

The Citizens League was established in 1973 with the proposition that government needs substantial citizen input to articulate issues, to develop proposals and to ease intergovernmental frictions. The Citizens League effort, therefore, is to offer an intelligent voice from citizens, bridging the gap between public and private interests.

The Citizens League has completed five reports on the issues of: Solid Waste Management, Children In Need of Supervision, The Management of the Chesapeake Bay and the Port of Baltimore, Metropolitan Tax Base Sharing, and Higher Education. A League research committee is currently developing ideas on the Future Financing of Baltimore City.

INTRODUCTION

This is a study of higher education in Maryland in the 1970s. During that decade, institutions of higher learning throughout the country began experiencing problems of unprecedented severity. Chief among them were the devastating effects of inflation on college and university budgets, a marked decline in the pool of young people who have traditionally constituted the primary source of college undergraduates, and rapidly changing career and professional needs that put strong pressures on the custom bound ways of the academic world.

These problems were reflected in Maryland by declining enrollments, the failure of several private colleges, destructive competition among overlapping institutions, and apparent failure of the state's political machinery to effect needed reform. The creation in 1976 of the State Board for Higher Education seemed to be a positive step, but substantial improvements in many of the problem areas have yet to appear.

After a two-year study, the Citizens League Higher Education Research Committee has concluded that many of the problems encountered with higher education in Maryland are not susceptible to regulatory solutions. We strongly feel that higher education in Maryland is entering a new era which the Carnegie Council on Policy Studies in Higher Education suggests could be a "golden era" for colleges and universities across the country.[1] Such an era demands a new approach and a new way of looking at higher education. This golden era could occur in Maryland if:

1. The state continues to support higher education at the same or increased funding levels as enrollments decline.
2. Incentives are provided to encourage excellence, innovation, cooperation and productivity.
3. The state public college and university management issue is resolved, especially in the Baltimore metropolitan area.
4. Leadership is provided at the state executive level that recognizes the economic development potential that higher education offers.
5. Everything possible is done to encourage quality and provide an educational product that meets the needs of higher education in the marketplace for today and into the next ten years. Many believe that it takes institutions this long to bring about significant change.

In summary, the committee's recommendation suggests a new approach to higher education funding in today's environment.

Our report is fair and objective and was approached from the private or independent sector viewpoint. However, we quickly came to the conclusion that the public and private sectors cannot be divorced from one another. Nor can Baltimore metropolitan area and statewide problems be separated from the federal level.

The committee could not examine in detail the remediation issue and new approaches to vocational education in a growing technological era. It is axiomatic that not everyone should go to college but, at the same time, there must be opportunity for all citizens to find personal fulfillment in today's complex society to better meet the obligations of an informed democracy.

SUMMARY OF FINDINGS

The opinions of persons appearing before the Research Committee

Planning and Management of Higher Education

Competition among institutions for students, programs and prestige is one of the most frequently-heard criticisms. This competition is intensified by the present system of state aid to schools, the Full-Time Equivalent, or F.T.E. formula, which is based on an equivalence of full and part time students. Because of the wide public-private tuition differential, private schools are at a disadvantage under this system.

Are Enrollment Ceilings an Answer?

A more drastic effort at reducing competition among institutions has recently been undertaken by the State Board for Higher Education; in 1980 it called for a 7 percent reduction in freshman enrollments at public four-year schools over the next decade. Independent educators believe that continued unchecked growth of public institution enrollments would increase the competitive disadvantage of private schools in an era of shrinking student pools. However, there are powerful pressures within the public sector against enrollment limitations.

Gaps and Overlaps

Another common criticism of higher education in Maryland concerns the overlapping of course and program offerings among neighboring institutions. Such duplication undeniably exists, but there is little agreement on the severity of its impact. Without some duplication, large numbers of students would have to commute to other schools for courses not offered at the home institution. Along with duplication, there are also significant gaps in program offerings among schools in the state in such important areas as agriculture, business management and computer science.

Meaningful coordination and cooperation among schools are considered by many to be vital to the survival of the American system, but such efforts are rare in the face of traditional academic loyalties and different philosophies embraced by various institutions.

The Inflation Squeeze

Several issues have emerged in recent years to plague the state's public and independent institutions. Principal among these problems is inflation. Education is labor-intensive and not an area where conventional cost-cutting measures and new technologies can effect substantial economies. The developing use of Cable TV by institutions may be an exception to this. Most vulnerable to inflation are small, independent liberal arts colleges, which have high per-student expenses and are heavily dependent on student charges for operating income. For all schools, instruction is the largest expense item.

Demographic data portray other serious problems, including the decline in the traditional college-age student population. In Maryland, the number of high school graduates will drop by 11 percent between now and 1989. The largest single student group, full-time undergraduates, will decline by 9 percent. In addition, substantial shifts in program preferences by students are likely, stemming both from job market changes and increasing enrollment of women and minorities. Increasing demand for graduate study will mean higher instructional costs, and larger numbers of part-time students will force many institutions into "two-shift" operations. The growing demand for part-time education will be especially burdensome on private schools, which cannot compete with public schools on a cost basis.

The High Cost of Dropouts

Large numbers of students leaving secondary institutions poorly prepared for further study will continue to be a problem. The dropout rate for freshmen at Maryland's public four-year institutions is well above the national average, approaching 40 percent in some Maryland schools. The cost of non-returning freshmen to these institutions has been as high as $8 million a year. Remediation costs for those who remain are high.

New Strategies Hold Promise

To enhance their chances for survival in the face of these challenges, colleges and universities are increasingly turning to modern corporate-type planning efforts. In the past, educational institutions were able to develop new programs on the basis of faculty interests and expertise; now, all but the most prestigious institutions must give considerable weight to marketplace demands. This is an area of some uncertainty, however, since marketplace demands are not always predictable, witness locally the failure of the short-lived Johns Hopkins School of Health Services. Some schools have had great success with marketing strategies, such as Frederick's Hood College.[2] Backed by sophisticated research, such strategies have rescued some schools from certain failure.

The link between educational planning and local economic development efforts is more apparent than ever under current economic conditions. In Maryland, the relationship has been all but ignored with regard to comprehensive education planning. There is no tradition of relating the location of new education facilities or the establishment of new programs to the needs of emerging commercial and industrial enterprises. Efforts to remedy this situation are only beginning and are far behind those of some Sun-Belt states.

Governance of Higher Education

Nearly every state now has an official body to govern or coordinate higher education in both public and private institutions. In Maryland, responsibility for planning and coordination among all post-secondary institutions rests with the State Board for Higher Education, which was created in 1976 in response to growing awareness of difficulties that affected all these institutions. Singled out were problems of duplication and program overlap, damaging competition, particularly among Baltimore area schools, and uncoordinated growth and "empire-building" among public sector schools. Attention was also drawn to ways in which Maryland fared poorly when compared with the rest of the nation: 40th in per-student financial contribution to higher education; 10 percent below national norms of college attendance relative to population; a 13 percent greater dependence on student-paid fees than the national average; and an average or below-average quality rating for all but three Maryland postsecondary schools.

Powers of the State Board

At present, the State Board has full authority over the public sector in such matters as accreditation, funding, and approval of programs and degrees awarded. The State Board's authority over the independent sector extends to approval of new institutions, administration of the program of state aid to independent schools, and endorsement - not approval - power over new or substantially altered programs in these schools. The State Board does not intervene in the internal affairs of private colleges, but it does have purse-string power through its authority to make funding recommendations to the State Legislature, which generally follows its recommendations.

A controversial and as yet untested area of the State Board's authority is the area of program and degree approval. Eleven of the state's private schools were chartered by the General Assembly and given "built-in" degree-granting powers. In the case of program additions or changes, private schools are not legally bound to honor a negative endorsement from the State Board. Thus far there has not been a direct challenge by the private sector to the state's authority in these areas.

A Concern for the Future

Another potential irritant in the present governance structure concerns accreditation. Private institutions have traditionally relied on a regional organizaton, the Middle States Association of Colleges and Schools, for accreditation. The State Board has recently arranged with the Middle States Association to join in its accreditation evaluations, a move that some private educators fear is an attempt by the State Board to take over the accreditation process.

Funding of Higher Education

The principal sources of revenue for colleges and universities are student fees, state and federal funds, private grants, and endowments. The mix varies widely among institutions, but cuts in state and federal funding would affect most schools adversely.

State Aid in Maryland

State funding in Maryland takes two major forms: direct aid and capital funding. Under the first, the state began a system of assistance to private colleges and the state's only private university (Johns Hopkins) in 1971. Since 1973, this aid has been based on the number of Full-Time Equivalent students in an institution. The state now pays these institutions 20 percent of the per FTE amount it provides to public schools. The only restriction on this aid is that it not be used for sectarian purposes. While it amounts to between only 1 and 9 percent of the private institutions' operating budgets, this assistance is highly valued and often means the difference between operating in the red and balancing the budget. Critics of the FTE-based system say it is not well suited for current conditions of declining enrollments: that it encourages colleges to develop probationary admissions in order to recruit larger numbers of students.

Under its capital funding program, Maryland pays up to 50 percent of the costs of new facilities and renovations to public and private institutions. The money made available annually for this purpose is not large, however, and there is intense competition for it among institutions. The independent schools receive only about 3 percent of total capital grants.

Private Giving Threatened

Private gifts and endowments now account for about 8 percent nationally of the income of higher education institutions. One area to which fund raisers are looking for help is corporate giving, which nationally accounts for 1.03 percent of college and university budgets even though corporations are permitted to deduct up to 5 percent of pre-tax net income as charitable contributions. However, many corporations are now increasing funding for in-house education and training programs, suggesting that what employers want is not being provided by traditional higher education institutions indicating the need for innovation in curricula and programs in the institutions.

Access to Higher Education

Despite the availability of higher education at 55 locations within Maryland, access remains a problem for many potential students, with cost being the greatest single barrier. The economic barrier is most severe for those desiring to attend private schools, where tuition and expenses average $2,000 a year higher than in public institutions. While many private institutions have attempted to increase student aid funds, continued high inflation and tight budgets often negate these efforts.

Federal Cuts Will Hurt Many

Many students in both public and private schools will be affected by cuts in federal student aid. One student in every three now attending a college or university receives some form of federal assistance.

Access to higher education among minority students in Maryland has improved substantially since the adoption of a 1974 desegregation plan. Black enrollment is now comparable to black representation in the state's population. But only 30% of potential lower income students attend college. .

CONCLUSION: A BETTER WAY TO PAY FOR HIGHER EDUCATION IS NEEDED

The assurance of continued adequate funding is the key to preservation of the vital national resource that higher education represents. In today's depressed economy with its accompanying emphasis on retrenchment, the development of alternatives to traditional solutions that no longer work is essential. For the independent institutions, unless additional sources of non-governmental funding support can be found, there is a real danger that large numbers of these schools will cease to exist or be absorbed into the public sector. Such an occurrence would represent an irreparable loss to the American educational system.

For Maryland independent institutions, the need for alternative sources of education funding is underscored by the existence of a meager state student aid program and by a system of state aid to institutions that enables the state, in effect, to regulate its own competition in the higher education field. If worsening economic conditions force private colleges and universities to rely even more heavily on public funds, the potential for serious conflict of interest seems inescapable.

RECOMMENDATION: CREATE A HIGHER EDUCATION INVESTMENT PLAN

Establish a plan whereby individuals can set aside funds for educational purposes that will qualify for the same kind of tax relief now accorded individual retirement accounts.

Such a plan will:

- Provide incentives for saving;
- Defer taxes on principal and earnings for the investor;
- Make additional scholarship funds available through a tax-exempt contribution, and thereby-
- Provide additional funds to potential students who are otherwise unable to finance their education, and-
- Benefit many persons in addition to those who can afford to invest.

The Plan

Amend the U.S. Internal Revenue Code to allow an annual income tax deduction to individuals of up to $2,000 per beneficiary for amounts invested in a Higher Education Investment Plan. The $2,000 maximum allowable amount would be indexed to allow for the effects of inflation, as measured by annual changes in the Consumer Price Index of July 1 of each year the plan is in effect.[3]

Adjusting the Principal — A State Scholarship Pool

Five percent of the total investment will be placed in a scholarship pool of the saver's state of residence for distribution to prospective students in that state according to financial need. Taxes are forgiven on the 5 percent contribution while taxes are deferred on the residual principal sum and on all earnings on principal until withdrawn.

For example:

Original Investment in the Plan	$2,000	
Less: 5 Percent Contribution	$ 100	Tax Forgiven
Equals: Principal	$1,900	Taxes Deferred

The resulting principal investment must remain in the account for at least one year.

Using the Funds

Amounts withdrawn from the account for education expenses will be taxed to the beneficiary of the account over a ten-year period beginning the second year after completion of a course of studies at an approved institution of higher education or vocational school.

Funds used by the investor for continuing education purposes will be taxed to the investor at one half the investor's normal tax rate over a ten-year period beginning the second year after the completion of a course of studies.

Education expenses include tuition, fees, books, supplies and equipment required for courses of instruction at an eligible educational institution, and a reasonable allowance for meals and lodging. An eligible institution is an approved institution of higher education or vocational school in Maryland or elsewhere.

Each account will be administered by a custodian which is a bank, insured credit union or person satisfactory to the Secretary of the Treasury.*

Administration of the Scholarship Pool

In Maryland, the existing Maryland State Scholarship Board may be assigned to administer funds flowing from Higher Education Investment Plan accounts.

How the Plan Works — A Hypothetical Case

Assume an investor with four dependents who has an annual salary of $25,000 invests in the plan. The investor's effective tax rate will be 25 percent federal and 7.5 percent state.** The investor is a parent and the beneficiary is the investor's child.

The maximum of $2,000 per year is deposited over a six-year period. Deposits begin three years prior to the beneficiary's entrance into college as shown in Table 1.

*IRS Code, Section 401 (d)(1)

**Federal tax rate verified by the IRS for a married couple with two minor children where the income is $20,000-$25,000 per year.

TABLE 1

Return to Individual Investor in Higher Education Investment Plan

1	2	3 (8)	4	5	6 (4-5)	7	8 (6+7)	9
Year	Investment Year	Beginning of Year	Deposit	5% Contribution	= Principal	Interest Earned	End of Year Balance	Withdrawal
X	1	X	2,000	100	1,900	190	2,090	X
X	2	2,090	2,000	100	3,990	399	4,389	X
X	3	4,389	2,000	100	6,289	629	6,918	3,000
1	4	3,918	2,000	100	5,818	582	6,400	3,000
2	5	3,400	2,000	100	5,300	530	5,830	3,000
3	6	2,830	2,000	100	4,730	473	5,203	5,203
4	7	0	—	—	0	0	0	0
TOTALS			$12,000	$600		$2,803		$14,203

SOURCE: Citizens League Calculations

In 1982, it is expected that approximately 226,000 Marylanders will attend college; 171,000 in Maryland institutions and 55,000 in out-of-state institutions. Table 2 illustrates the effects of a 5 percent contribution to the Maryland Scholarship Pool under three participation rates in the plan.

TABLE 2

Effects of 5 Percent Contribution From the Plan on Student Financing of Higher Education in 1982

		Student Participation Rates		
		5 Percent 11,300	50 Percent 113,000	100 Percent 226,000
Total deposited in the plan at $2,000 maximum per buyer (in millions of dollars)		$22.6	$225.8	$451.6
Amount available from 5 percent contribution (in millions of dollars)		$ 1.1	$ 11.3	$ 22.6
Remaining Principal		21.5	214.5	429.0
Interest at 10%, 1 year		2.5	21.5	42.9
Number of students which 5 percent contribution pool will support in tuition and fees		Public - 1,063 Private - 266	10,630 2,655	21,260 5,310
Estimated tuition and fees per student in Maryland, 1982	Public - $1,063 Private - $4,256	—	—	—

NOTE: The interest earned can be reinvested in the accounts for a greater overall return. Interest earned can also be seen as additional funds for higher education expenditures by individuals as can deferred taxes to be paid by the beneficiary.

SOURCE: Citizens League Calculations

Benefits of the Plan

1. No new federal or state agencies are required to administer this plan.
2. Referring to Table 1, each person who invests a maximum of $2,000 per year per beneficiary or student over a six-year period will have:

   $3,705 in taxes deferred on deposits of $12,000.
   $ 195 in taxes forgiven on the 5% contribution to the Scholarship Pool of $600.
   $ 982 in taxes deferred on the interest income of $2,803.
   $4,882 is the total of deferred taxes and taxes forgiven.

   Since deferred taxes would be paid by the beneficiary or student, later, this $4,882 per investor could represent an additional amount of spending by the investor on higher education.
3. The plan's yield should be consistently 4 to 5 percent greater than market interest rates due to the tax deferred compounding.
4. Investors or buyers can create a possible tax-free source of funds for education which no other plan allows.
5. The fund may counter the coming reduction in government funds for operating costs and student loans.

6. Persons with investment capabilities may benefit others who cannot save.
7. Anyone can now make a charitable contribution, including persons who do not itemize their deductions. The plan is unique since the proposed contribution to the Scholarship Pool would be automatic.

Constructing the Plan

The Citizens League analyzed the effects of the Higher Education Investment Plan with special emphasis on yield to the investor, funds going to the tuition pool, and taxes forgiven and deferred until payment by the beneficiary. The investor-beneficiary, where a person invests in his or her own education, is also considered.

The financial effects of the plan were calculated using assumptions and projections on participation rates and educational costs. The results are reasonable estimates of the financial effects of the plan. Table 1 summarizes selected participation by 226,000 Maryland residents who would be paying for public and independent higher education in and out of the state in 1982. The projected buyers for that year are based upon Citizens League and State Board for Higher Education forecasts of enrollments in 1982.

It was assumed that 75 percent of all Maryland residents buying higher education in and out of the state will invest in the plan.

The effective yield of the plan is based upon:

1. The interest income earned on the adjusted principal, after the 5 percent scholarship pool contribution is deducted;

2. The taxes forgiven on this contribution; and

3. The value of the taxes deferred on the adjusted principal and its interest income.

It is assumed that the adjusted principal will yield an average of 10 percent, irrespective of the length of time invested. The average investor, it is further assumed, pays a 25 percent federal tax rate and 7.5 percent Maryland tax rate.

The third item, the value of the taxes deferred on the adjusted principal and its interest income, is of major importance. If the investor is a parent, for example, and not a beneficiary, he or she is not obligated to pay income tax on the adjusted principal or on the accumulated income, and the deferral of taxes for this investor is treated as though the taxes are forgiven. This is the case since the beneficiary of the parent's investment will pay deferred taxes at a later date over a ten-year period upon graduation from a higher education institution. The beneficiary will pay the taxes at his or her own rate at the time of repayment. Table 3 illustrates the payback and compares this to the repayment of a student loan.

The Citizens League did not estimate the value to an investor who is also the beneficiary. Such a person would have use of the adjusted principal—the investment less 5 percent for the pool—for two or more years before paying taxes on the proceeds. During times of high inflation, this effect would be more important, since this person would be paying taxes with substantially depreciated dollars.

A comparison of the beneficiary's obligation to pay back taxes and earnings under the plan against a 9 percent student loan is illustrated in Table 3, below. This is especially appropriate at this time, since severe limitations will be placed on U.S. Guaranteed Student Loan Funds available to individual students in the immediate future.

TABLE 3 Beneficiary Payback Comparison
Higher Education Investment Plan
vs. Student Loan

ASSUMPTIONS -

a. With Investment Plan Principal $2,000 per year or $8,000 over

b. Payback Period - 10 years (120 months)

c. Assumed Income Tax Rate -
- 1st 2 years - 15% - $240
- 2nd 2 years - 20% - $320
- 3rd 2 years - 25% - $400
- 4th 2 years - 30% - $480
- 5th 2 years - 35% - $560

d. With Loan of $8,000

e. Payback Period - 10 Years (120 months)

f. Interest Rate - 9%

	Higher Ed. Plan	Student Loan
1. Amount Spent on Higher Education	$8,000	$ 8,000
2. Total Amount Required to Payback	$2,000	$15,200
3. Annual Payment (average)	$ 200 (taxes)	$ 1,520 (Principal & Interest)

PLEASE NOTE: *This table illustrates an either-or situation. Doubtless a combination of the plan and a loan would be appropriate.*

Developing This Proposal

The Citizens League staff has discussed this proposal over the past ten months with tax attorneys and investment advisors. Their opinion is favorable from a legal and investment viewpoint. However, they are mindful, as is the Citizens League, that the enactment of federal tax legislation can require as long as five years. While state legislation might take a shorter period of time, the incentives to the taxpayer are far less if only the state were involved due to the average 7.5 percent state tax rate compared with the 25 percent average federal tax rate on income.

The Citizens League proposal has precedent in the Keogh Plan legislation enacted by Congress in 1962 as the Self-Employed Individuals Tax Retirement Act. Such a plan allows a self-employed person to save for retirement and deduct as much as $15,000 per year.

Neither the Keogh Plan nor any other current law or proposed legislation allows the 5 percent proposed charitable deduction to be earmarked specifically for higher education as proposed by the Citizens League.

Federal Legislation Required

This recommendation, to be realized, will require federal legislation. Under present law, there is no general provision which permits deductions for amounts contributed to a trust to pay education expenses of the taxpayer or a child of the taxpayer. However, educational expenses may be deducted and employers may provide tax-free education to their employees. A taxpayer is permitted to claim an exemption for a child over age 18 who is a full-time student even though the child may claim a personal exemption on his own return.

Several bills[4] now before Congress would provide tax incentives for amounts expended or saved for the vocational or higher education of the taxpayer and his children. Some would allow tax credit deductions on an average of $250 to $500, depending upon the taxpayer's income status.

Proposed tuition savings plans offer the deferment of taxes up to $2,000 per student. The burden of paying the taxes rests on the student after graduation, as in the Citizens League recommendation.

Neither tax credits nor education savings plans have been approved by Congress. But if either or both programs are approved and enacted, neither will fully compensate for cutbacks now under consideration in the Guaranteed Student Loan Program. Experts believe that economic renewal, that is, capital formation incentives, will be the focus of any new tax legislation in the present Congress. However, savings plans similar to this recommendation by the Citizens League, if they gain the support of the higher education establishment and bankers, seem to be more in tune with the main thrust of tax legislation.

The willingness of parents to save for their children's future education is the unknown variable in the equation.

Questions and Answers About the Higher Education Investment Plan Proposal

1. *What will be the level of administration costs; will there be a maximum; how will they be paid?*

The costs of administering the fund will be set by the administering financial institution and will vary depending on the size of the fund in that institution. Usually, the smaller the fund, the larger the percentage of the principal required to offset administrative expenses. The payment of administrative expenses should be deducted from the net return, after the 5 percent contribution to the scholarship pool. Obviously, the higher the administrative costs of an institution, the lower the net return of the plan to the investor, and the less attractive it becomes.

2. *Can a rate of return on an investment in the fund be guaranteed?*

This will be left up to each institution managing the fund.

3. *What happens to the investment of an individual who changes residence from one state to another?*

Federal benefits do not depend on the state in which the institution is located. Therefore, at the end of the calendar year, the investment could be moved from an institution in the old state to an institution in the new state, or it could be left in the original institution. The option belongs to the individual investor, and the only difference might be in the burden of state and local taxes.

4. *What percentage of the investor's initial investment should be contributed to the scholarship pool?*

The Citizens League believes 5 percent allows the plan to remain attractive enough to potential investors and still make a significant contribution to the students. The more contributed to the pool, the less attractive the plan will become for the investor, so that too high a percent could result in less being contributed.

5. *What should be the basis for the distribution of the scholarship pool?*

Funds from the pool in each state will be earmarked for scholarships according to students' academic attainment and financial need. This assumes that intellectual achievement and potential have been established by the applicant in accordance with his or her state's criteria.

6. *What impact will the fund have on corporate and alumni giving?*

There will be some impact, but nothing close to a one-for-one trade-off. Because corporations are not involved directly in the plan, the only reductions in corporate giving would likely come from reductions in alumni gifts that are matched by corporation gifts.

7. *Should the fund be allowed to make loans to individuals?*

No. This provision would unnecessarily burden the fund with extra administrative expenses and also preempt other agencies and institutions from organizing to make these loans.

8. *Should there be any restrictions on the types of investments made by the institutions administering the fund?*

None other than those for an IRA or Keogh Plan.

9. *What happens to an investor's fund if it is not used for higher education expenditures?*

The 5% contributions to the investor's state scholarship pool would not be returned.

The residual principal and earned interest may be transferred to an approved IRA or Keogh retirement account without penalty. Otherwise, if the investor chooses, he or she may:

a. Donate the proceeds to an institution or to a state scholarship fund. The transaction would be treated as a charitable contribution; or,

b. Withdraw the proceeds and pay a penalty, to be determined, and accumulated taxes on the deferment on principal and interest earned.

10. *Why should we shift tax revenues into higher education?*

External benefits of higher education accrue from attracting business and generating more income and tax dollars. Also, decisions as to how much is to be shifted are made by private individuals, not by government.

11. *Is this plan elitist?*

Only to the extent that higher education or an IRA or Keogh Plan are elitist. Programs of tax savings as now proposed in the Congress would not offer any countervailing relief to lower income taxpayers, even in the long term.[5] The Citizens League plan creates a fund available to potential students according to academic attainment and financial need.

Additional Ideas to Follow

The Citizens League will soon release a Background Report with additional observations and recommendations on higher education in Maryland.

The report will detail the League's *Findings*, summarized in the present document, and will address:

- A marketing orientation toward funding higher education;
- A planning and marketing system for public and independent institutions;
- Suggestions for the improvement of data reporting in higher education.

The report will be available in mid-November, 1981.

Notes to Text

Note	Reference
1	Carnegie Council on Policy Studies in Higher Education. Final Report of the Council. *Three Thousand Futures: The Next Twenty Years for Higher Education.* San Francisco, CA, Josey Bass, 1980.
2	Lovelock, Prof. Christopher H. *Hood College.* Harvard University Institute for Educational Management. Cambridge, Mass., 1977.
3	Adapted from *Description of Tax Bills Relating to Incentives to Save for Retirement, Education or Housing.* U.S. Senate Subcommittee on Savings, Pensions and Investment Policy of the Committee on Finance. GPO, Washington, D.C., Feb. 21, 1981.
4	Bills before The Congress at Jan. 5, 1981 concerning tuition or tax credits and savings plans: *In the House of Representatives* - *HR 89 Ashbrook (R-Ohio)* To allow a taxpayer to deduct, or claim a credit for, amounts paid as tuition for educating himself, his spouse, or his dependents. The amount of the credit could not exceed $500, and the deduction allowed could not exceed $1,000.

Note	Reference
	HR 92 Ashbrook (R-Ohio) To allow income tax credit for tuition expenses at institutions of higher education for the taxpayer, his spouse, or dependents, not to exceed $300. A credit would also be allowed for gifts or contributions made to any higher education institution, not to exceed $500 or 20% of the taxpayer's total tax, whichever is less. *HR 209 Duncan (R-Tennessee)* To allow a credit against income tax to individuals for certain expenses incurred in higher education. The credit would be an amount equal to the sum of: —100% of expenses under $200 — 25% of expenses over $200 but less than $500 — 5% of expenses over $500 but under $1,500. *HR 263 Guyer (R-Ohio)* To provide a credit for tuition paid for higher education, not to exceed $1,000. *HR 366 Lederer (D-Pennsylvania)* To provide an income tax credit for elementary and secondary tuition for the next three years as follows: 1981 - $100 1982 - $150 1983 - $150 *HR 335 Holt (R-Maryland)* To allow a deduction from gross income for expenses paid by the taxpayer for educating any of his dependents at an institution of higher learning. The deduction could not exceed $1,500 a year. *HR 380 Luken (D-Ohio)* and the following co-sponsors: Goldwater (R-California), Mottl (D-Ohio), Daniel (R-Virginia), Scheuer (D-New York), Mazzoli (D-Kentucky), Dougherty (R-Pennsylvania), Forsythe (R-New Jersey), Livingston (R-Louisiana), Volkmer (D-Missouri), Edwards (R-Oklahoma), Snyder (R-Kentucky), Chappell (D-Florida), Long (D-Maryland). To provide an income tax credit for tuition at elementary/secondary or post-secondary institutions. The dollar amount allowed as a credit could not exceed the applicable amount determined as follows:

Calendar Year	Elementary/ Secondary School Student	Post-Secondary School Student
1981	$100	$200
1982	200	300
1983	200	400

Note Reference

HR 425 Quillen (R-Tennessee)

To provide that an individual may deduct amounts paid for his higher education, or for the higher education of any of his dependents, not to exceed $1,000.

HR 486 Roe (D-New Jersey)

To provide a credit against income tax for certain expenses incurred in elementary or secondary education: $100 in 1981, $200 in 1982.

HR 487 Roe (D-New Jersey)

To provide a credit against income tax for certain expenses incurred in higher education: $250 in 1981; $500 in 1982.

In the Senate

S 12 Dole (R-Kansas), Cochran (R-Mississippi), Symms (R-Idaho).

To allow employees who are active participants in a private qualified pension plan to make deductible contributions to an educational institution limited to the lesser of $1,000 or 15 percent of compensation.

S 24 Dole (R-Kansas), Chaffee (R-Rhode Island), Danforth (R-Missouri), Wallop (R-Wyoming), Garn (R-Utah), Hatfield (R-Oregon), Goldwater (R-Arizona), and DeConcini (D-Arizona).

To allow the deductions of up to $1,000 per year, per beneficiary, for amounts transferred to an educatonal savings account. Distributions from the account for education purposes would be taxed to the beneficiary over a 10 year period, in 10 equal parts. The bill also provides for a deduction for amounts contributed to a housing savings plan.

5 Adapted from *A Guide to Tax Policy and Higher Education: An Analysis of Tuition Tax Credits, Tax Savings Plans, Vouchers and Independent Education* by Christine Topping Milliken, National Institute of Independent Colleges and Universities, Washington, D.C., January, 1981.

Resource Persons to the Committee

The following persons appeared before the Research Committee or were interviewed by the staff. They are, in order of appearance or interview:

Hon. John Carroll Byrnes, Maryland Senate, 44th District

Dr. Wright Lassiter, formerly Vice President for Finance, Morgan State University, now with Schenectady State College, New York

Elizabeth Garraway, Executive Director, Maryland Independent College and University Association

Dr. Thomas Scheye, Academic Vice President, Loyola College

Dr. James Billet, Dean and Vice President of Academic Deans, Goucher College

Sister M. Oliver Hudon, SSND, Academic Dean, Notre Dame College

Ellery Woodworth, Special Assistant to the President, Johns Hopkins University

Fred Lazarus, President, Maryland Institute of Art

Irving Lowens, Dean, Peabody Conservatory

Peter Taliaferro, Maryland Assistant Attorney General for Assessments and Taxation

Dr. James Fisher, President, Council for the Advancement and Support of Education, formerly, President, Towson State University.

Andrew Lupton, Vice President and Director, Academy for Educational Development

Dr. Sheldon H. Knorr, Commissioner, Maryland State Board for Higher Education

Stephen McNierney, Vice President, Black and Decker Mfg. Co., Inc., formerly, Vice President, Loyola College, Baltimore

Thomas Juliano, Director, Center for Community Services, Essex Community College

Michael Barr, Executive Vice President, Independent College Fund of Maryland

Dr. Rhoda Dorsey, President, Goucher College

Rev. Joseph Sellinger, S.J., President, Loyola College

Sister M. Kathleen Feely, SSND, Ph.D., President, College of Notre Dame of Maryland

Mr. Alonzo G. Decker, Honorary Chairman of the Board, Black and Decker Mfg. Co., Inc.

Dr. Steven Muller, President, Johns Hopkins University

William Salganik, Formerly Education Editor, The Sun

Jacques Schlenger, Esq., Venable, Baetjer and Howard

George Reynolds, III, Esq., Venable, Baetjer and Howard

H. Peter Colhoun, Vice President, T. Rowe Price Associates, Inc.

Michael Gaffney, T. Rowe Price Associates, Inc.

Christine Topping Milliken, General Counsel, National Institute of Independent Colleges and Universities, Washington, D.C.

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Dr. Joseph Popovitch, Dr. Daniel McConochie, Lucy Lapovsky and Margaret Riley of the State Board for Higher Education, Annapolis, MD.

Michael Gerber of the Maryland Independent College and University Association, Annapolis, MD.

Renee Canada, Congressional Clearing House on the Future, Washington, D.C.

The staffs of the Maryland Congressional Delegation.

Prior to beginning the study, the officers and the staff of the Citizens League consulted with the following in order to gain a perspective on the problem:

Mr. Walter Sondheim, Chairman of the Board, Charles Center - Inner Harbor Management Corp.
Dr. James Billett, Goucher College
Dr. John Dorsey, Chancellor, University of Maryland Baltimore County
Sr. M. Oliver Hudon, College of Notre Dame of Maryland
Dr. Norman Sheets, Towson State University
Dr. Thomas Scheye, Loyola College
Dr. H. Mebane Turner, President, University of Baltimore
Mr. Ellery Woodworth, Johns Hopkins University

PLEASE NOTE: The listing of names of the above resource persons to the research committee does not constitute an endorsement of this report by these persons.

The Research Committee

The Higher Education Research Committee met 28 times between November 14, 1979 and June 30, 1981 and interviewed 26 resource persons. Those included professionals in higher education - teachers, administrators, public agency personnel and representatives of statewide and national higher education organizations.

Of the 12 persons who originally signed up for this committee, 8 remained active through the completion of its work. Members of the Committee were:

John Greene, Chairman	Joseph Hunter
Patricia Borleis	Albert Kaltenbach
Phyllis DuVal	Dennis Moore
Mary Ann Franklin	Wolfram Sommer

The Committee was assisted by William McDonnell, Staff Director, John Schmidt and Richard Keister, Staff Assistants, Jean Haebler, Adminstration and Data Analysis, Elizabeth McDonnell, Senior Intern, Cyndy Rayborn, Jennifer Isaacs, Katherine McDonnell and Paul Owens, Junior Interns. Dr. William M. Penn, Jr. provided the quantitative studies in this report.

CITIZENS LEAGUE
P.O. BOX 5403
BALTIMORE, MD.
21204